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Legislative Audit Division

State of Montana

Report to the Legislature

September 1995

Financial Audit

For the Fiscal Year Ended June 30, 1995

Montana Board of Housing

Department of Commerce

We issued an unqualified opinion on the financial statements of the Montana Board of Housing.

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The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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MARY BRYSON
Operations and EDP Audit
JAMES GILLETT
Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

September 1995

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial audit report on the Montana Board of Housing, Department of Commerce, for the fiscal year ended June 30, 1995. We performed this annual audit of the Montana Board of Housing in compliance with section 90-6-124, MCA. Recommendations directed to the Montana Board of Housing, if any, will be included in the Department of Commerce (#95-12) audit report.

Members of the audit staff involved in this audit included Jeane Carstensen-Garrett, Charles Nemec, Lorry Parriman, and Vickie Rauser. We thank the Montana Board of Housing administrator and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

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MONTANA BOARD OF HOUSING

FINANCIAL REPORT

JUNE, 30 1995

MONTANA BOARD OF HOUSING

BOARD MEMBERS AND ADMINISTRATIVE OFFICIALS

JUNE 30, 1995

BOARD MEMBER	RESIDENCE
Bob Thomas, Chairman	Stevensville
Robert Savage, Vice-Chairman	Sidney
Paul Bankhead, Secretary	Heron
William Oser	Billings
Waneeta Farris	Forsyth
Michael McKee	Hamilton
Barbara Hamlin	Helena

ADMINISTRATIVE OFFICIALS

Maureen Rude, Administrator

Kelly Rusoff, Accounting & Finance Officer

Robert Morgan, Administrative Officer

Bruce Brensdal, Administrative Officer

MONTANA BOARD OF HOUSING
CURRENT STATUS OF PRIOR YEAR RECOMMENDATIONS
June 30, 1995 and 1994

There were no prior year audit recommendations to report on.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Montana Board of Housing
Helena, Montana

We have audited the accompanying financial statements of the Montana Board of Housing, a component unit of the state of Montana, as of June 30, 1995 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Board's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Board of Housing as of June 30, 1995, and the results of its operation and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The single family combining statements, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements of the Montana Board of Housing. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Respectively submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

September 22, 1995

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING BALANCE SHEET
June 30, 1995 and 1994

	Single Family Mortgage Program funds	Mutifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1995	Combined Totals 1994
SETS					
sh and cash equivalents (Note 2)	$ 1,685,482	$ 99,200	$ 1,327,626	$ 3,112,308	$ 2,583,919
vestments (Note 3)	149,466,396	5,076,035	-	154,542,431	217,080,622
Market Value - $163,850,713)					
rtgage Loans receivable (Note 4)	328,081,111	13,127,764	290,873	341,499,748	303,458,132
terest receivable	4,466,354	150,230	41,542	4,658,126	4,469,490
ferred bond issuance costs, net	5,292,757	216,921	-	5,509,678	5,922,992
xed assets (Note 7)	75,327	4,477	2,581	82,385	57,484
epaid expense	27,449	1,513	548	29,510	2,630
counts Receivable	1,051		1,439	2,490	-
Total Assets	$489,095,927	$ 18,676,140	$ 1,664,609	$ 509,436,676	$ 533,575,269
ABILITIES AND FUND BALANCES					
abilities:					
Accounts payable	$ 254,615	$ 3,988	$ 2,085	$ 260,688	$ 264,344
Cost of issuance payable	52,115	-	-	52,115	75,367
Accrued interest-bonds payable	4,770,895	355,116	-	5,126,011	5,806,949
Due to Primary Government					54,297
Bonds payable, net (Note 8)	410,603,570	13,823,729	-	424,427,299	452,484,745
Less: Deferred Refunding Costs (Note 15)	(496,280)	-	-	(496,280)	-
Arbitrage tax payable to U.S. Treasury Department (Note 12)	125,280	-	-	125,280	234,689
Accrued compensated absences	24,871	1,978	1,413	28,262	44,423
Total Liabilities	415,335,066	14,184,811	3,498	429,523,375	458,964,814
mmitments (Note 10)	-	-	-	-	-
tained Earnings:					
Reserved Retained Earnings-Pledged to Bondholders (Note 1 & 10):					
Single Family Programs	58,741,096	-	439,597	59,180,693	58,759,026
Various Recycled Mortgage Programs	15,019,765	-	-	15,019,765	10,642,609
Multifamily Programs	-	2,648,428	-	2,648,428	1,957,413
Multifamily Project Commitments	-	1,842,901	-	1,842,901	2,138,840
Reverse Annuity Mortgage Program	-	-	1,128,514	1,128,514	662,567
Cash Assistance Program	-	-	93,000	93,000	50,000
Infrastructure Financing for Affordable Housing Program					400,000
Total Retained Earnings	73,760,861	4,491,329	1,661,111	79,913,301	74,610,455
Total Liabilities and Retained Earnings	$ 489,095,927	$ 18,676,140	$ 1,664,609	$ 509,436,676	$ 533,575,269

e accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
For the years ended June 30, 1995 and 1994

	Single Family Mortgage Program funds	Mutifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1995	Combined Totals 1994
EVENUES:					
nterest income-mortgage loans	$ 25,323,668	$ 1,018,655	$ 17,083	$ 26,359,406	$ 29,123,777
nterest income-investments	11,076,075	298,105	65,086	11,439,266	11,694,522
ee income	14,518	3,042	63,684	81,244	35,302
ain (Loss)on sale of investments	1,083,208	(7)	-	1,083,201	7,221,589
ther income	230	7,579	-	7,809	7,555
Total revenues	$ 37,497,699	$ 1,327,374	$ 145,853	$ 38,970,926	$ 48,082,745
XPENSES:					
nterest on bonds	$ 29,522,305	$ 854,535	$ -	$ 30,376,840	$ 36,444,289
ervicer fees	1,173,156	16,267	-	1,189,423	1,216,304
mortization of bond issuance costs	560,534	11,027	-	571,561	459,441
eneral and administrative	888,220	50,469	27,697	966,386	1,060,572
rbitrage rebate tax (Note 12)	77,491	-	-	77,491	87,061
oss on redemption (Note 9)	485,504	-		485,504	1,308,464
Total Expenses	32,707,210	932,298	27,697	33,667,205	40,576,131
perating Income	4,790,489	395,076	118,156	5,303,721	7,506,614
nonoperating expenses					
Loss on disposal of fixed assets	(875)	-	-	(875)	-
et income (loss) before extraordinary loss	4,789,614	395,076	118,156	5,302,846	7,506,614
xtraordinary loss on bond Redemption (Note 13)	-	-	-	-	(700,644)
et income (loss)	4,789,614	395,076	118,156	5,302,846	6,805,970
etained Earnings, beginning of year: Reserved Retained Earnings-Pledged to Bondholders	68,971,247	4,096,253	1,542,955	74,610,455	67,804,485
etained Earnings, end of year: Reserved Retained Earnings-Pledged to bondholders	$ 73,760,861	$ 4,491,329	$ 1,661,111	$ 79,913,301	$ 74,610,455

ee accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
For the years ended June 30, 1995 and 1994

	Single Family Mortgage Program funds	Mutifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1995	Combined Totals 1994
SH FLOWS FROM OPERATING ACTIVITY					
eceipts for Sales and Services	$ -	$ -	$ 63,684	$ 63,684	$ 35,302
ollections on Loans					
And Interest on Loans	68,919,194	1,172,149	36,035	70,127,378	128,852,452
ash payments for Loans	(81,452,839)	(585,792)	(125,208)	(82,163,839)	(17,862,118)
ayments to Suppliers					
for Goods and Services	(1,833,977)	(36,692)	(8,142)	(1,878,811)	(2,083,903)
ayments to employees	(344,242)	(30,976)	(17,699)	(392,917)	(316,450)
ther Operating Revenues	1,371,747	10,614	-	1,382,361	7,555
t Cash Provided (Used) for					
Operating Activities	(13,340,117)	529,303	(51,330)	(12,862,144)	108,632,838
SH FLOWS FROM NONCAPITAL					
FINANCING ACTIVITIES:					
ayment of Principal and					
nterest on Bonds and Notes	(111,647,409)	(1,068,407)	-	(112,715,816)	(155,570,545)
roceeds from Issuance					
of Bonds and Notes	53,580,000	-	-	53,580,000	66,540,000
ayment of Bond Issuance Costs	(798,746)	-	-	(798,746)	(905,392)
remium Paid on Refunding Bonds	(857,875)	-	-	(857,875)	-
eferred Gain on Refunding Bonds	513,930	-	-	513,930	-
t Cash Provided (Used for)					
Noncapital Financing Activities	(59,210,100)	(1,068,407)	-	(60,278,507)	(89,935,937)
SH FLOWS FROM CAPITAL AND RELATED					
FINANCING ACTIVITIES:					
cquisition of Fixed Assets	(45,337)	(5,077)	(2,926)	(53,340)	(58,185)
t Cash Used for Capital and					
Related Financing Activities	(45,337)	(5,077)	(2,926)	(53,340)	(58,185)
SH FLOWS FROM INVESTING ACTIVITIES:					
urchase of Investments	(976,276,352)	(16,912,969)	-	(993,189,321)	(1,564,530,581)
roceeds from Sales or					
Maturities of Investments	1,038,935,079	16,778,857	-	1,055,713,936	1,535,065,810
nterest on Investments	11,014,580	306,683	63,402	11,384,665	11,533,547
rbitrage Rebate Tax	(186,900)	-	-	(186,900)	-
t Cash Provided by (Used for)					
Investing Activities	73,486,407	172,571	63,402	73,722,380	(17,931,224)
Net Increase (Decrease) in Cash					
And Cash Equivalents	890,853	(371,610)	9,146	528,389	707,492
sh and Cash Equivalents, July 1	794,629	470,810	1,318,480	2,583,919	1,876,427
sh and Cash Equivalents, June 30	1,685,482	99,200	1,327,626	3,112,308	2,583,919

ee accompanying notes to financial statements.

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
COMBINING STATEMENT OF CASH FLOWS
For the years ended June 30, 1995 and 1994

	Single Family Mortgage Program funds	Mutifamily Mortgage Program Funds	Housing Trust Fund	Combined Totals 1995	Combined Totals 1994
ECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
perating Income (loss)	$ 4,790,489	$ 395,076	$ 118,156	$ 5,303,721	7,506,614
DJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:					
Depreciation	26,619	600	346	27,565	22,956
Amortization	1,046,039	11,026	-	1,057,065	-
Interest Expense	29,522,306	854,534	-	30,376,840	38,212,194
Interest on Investments	(11,076,075)	(298,105)	(65,086)	(11,439,266)	(18,916,111)
Arbitrage Rebate Tax	186,900	_	_	186,900	87,061
Bad Debt Allowance	(40,000)	_	_	(40,000)	-
Change in Assets and Liabilities:					
Decr (Incr) in accounts receivable	(106,632)	(1,953)	(14,365)	(122,950)	766,804
Decr (Incr) in Long-term Loans Receivable	(37,469,680)	(430,014)	(93,331)	(37,993,025)	80,759,793
Decr (Incr) in other assets	(24,822)	(1,510)	(548)	(26,880)	224,629
Incr (Decr) in Accounts Payable	(6,324)	583	2,085	(3,656)	125,418
Incr (Decr) in Due to Other Funds	-	-	-	-	(216,595)
Incr (Decr) in Due to Primary Government	(54,297)	-	-	(54,297)	54,297
Incr (Decr) in Deferred Revenue	(8,261)	(330)	_	(8,591)	-
Incr (Decr) in Compensates Absences Payable	(16,970)	(604)	1,413	(16,161)	5,778
Incr (Decr) in Arbitrage Rebate Tax Payable	(109,409)	_	_	(109,409)	-
let Cash Provided by (Used for) perating Activities	(13,340,117)	529,303	(51,330)	(12,862,144)	108,632,838

ee accompanying notes to financial statements.

MONTANA BOARD OF HOUSING
A Component Unit of the State of Montana
NOTES TO THE FINANCIAL STATEMENTS
June 30, 1995 and 1994

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization:
The Montana Board of Housing (the Board) is a quasi-judicial board created in 1975, by the Legislative Assembly of the State of Montana to facilitate the availability of decent, safe, and sanitary housing to persons and families of lower income as determined in accordance with the Board policy in compliance with the Internal Revenue Code. The Board is authorized to issue negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed $975,000,000. The discount price of bonds sold, not the face amount of the bonds, counts against this statutory ceiling. Neither the faith and credit nor taxing power of the State of Montana may be pledged for payment of amounts so issued. The Board of Housing is attached to the Department of Commerce.

Basis of Presentation:
The financial statements of the Board have been prepared in conformity with generally accepted accounting principles whereby revenues are recognized when earned and expenses are recognized when incurred. The financial activities of the Board are recorded in funds established under various bond resolutions. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period.

Reporting Entity:
In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Board of Housing as a reporting agency. The Board of Housing is includable as a component unit within the State of Montana financial statements. The State of Montana directs and supervises budgeting, record keeping, reporting, and related administrative functions of the Board.

Fund Accounting:
To ensure observance of limitations and restrictions placed on the use of resources by the trust indentures, the Board of Housing accounts are organized in accordance with the principles of fund accounting. This is the procedure by which resources are classified for accounting and reporting purposes into funds established according to their nature and purpose as described in the trust indentures. The operations of each fund are accounted for by providing a separate set of self balancing accounts which are comprised of each fund's assets, liabilities, fund balances, revenues, and expenses. The Board is classified as a enterprise fund, that is, a fund that is financed and operated in a manner similar to private business enterprises, where the intent of the Board is that the expenses of meeting its organizational purpose be financed or recovered primarily through user charges and investment earnings, and the periodic determination of revenue earned and expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, and other purposes. Reserved Retained earnings (pledged to bondholders) represent bond program funds that are required to be used for program purposes as prescribed by individual bond indentures. The following describes the restrictions on the Reserved Retained Earnings: The individual bond indentures establish certain funds and accounts as special trust funds to hold the individual indenture funds. Due to the general obligation nature of the Board's bonds, these funds and accounts are pledged as collateral for the bonds under the individual program indentured. The individual indentures also set certain reserve requirements on cash and investments. These reserves are disclosed in Note 3 to the financial statements. Also, as disclosed in Note 4 to the financial statements, the mortgage loans receivable are pledged as security for holders of the bonds. Certain indentures also require asset-liability coverage ratios be met as well as cash flow certificates be furnished for any significant change anticipated in the financial structure of an indenture.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Fund Accounting - continued
Reserved retained earnings also include reserved and committed funds for various programs established by the Board.

Fund Structure:
Single Family Mortgage Program Funds - these funds, established under ten separate trust indentures adopted on various dates, are established for accounting for the proceeds from the sale of Single Family Mortgage Bonds and the debt service requirements of the bond indebtedness. Activities of these funds are, in general, restricted to the purchase of eligible single family mortgage loans. The mortgage loans must be insured by the Federal Housing Administration or guaranteed by Veterans Administration or Rural Housing and Community Development Services (RHCDS).

The accompanying combining financial statements present the Single Family Mortgage Program Funds in one column. The assets of each individual Single Family Mortgage Program Fund are restricted by the Fund's respective trust indenture; therefore, the total does not indicate that the Single Family Mortgage Program Funds' assets are available in any manner other than provided for in the individual trust indentures. The Board has reserved funds for specific loan programs. These loans will be originated from funds available in the Single Family I and II Indenture.

Multifamily Mortgage Program Funds - These funds, established under a trust indenture adopted February 23, 1978, as amended and restated as of December 29, 1992, are established for accounting for the proceeds from the sale of Multifamily Mortgage Bonds, the debt service requirements of the bond indebtedness, and for construction and permanent mortgage loans on multifamily developments being financed from the bond proceeds. Mortgage loans originated prior to December 1992, must be insured by the Federal Housing Administration.

Housing Trust Fund - the Housing Trust Fund was established as a separate trust fund by a resolution of the Montana Board of Housing, adopted February 16, 1989. The Housing Trust Fund was created to finance in whole or in part future housing needs and the establishment of new programs as deemed necessary by the Board and any loans or projects that will provide housing for lower income persons and families with special housing needs. Current programs include, but are not limited to, the Reverse Annuity Mortgage Program (RAM) for senior Montana homeowners, the Home Buyers Cash Assistance Program (CAP) to assist lower income individuals and families in the purchase of a single family home and, in 1994, the Infrastructure Financing for Affordable Housing Program. The Housing Trust Fund also includes all activity from the Low Income Housing Tax Credit Program.

Cash and Cash Equivalents:
For the purposes of the combining statement of cash flows, cash and cash equivalents consist of cash held by the State of Montana Treasurer, cash held by trustees, and cash invested in the state's short term investment pool.

Investments:
The Board's bond trust indentures restrict investment obligations to any of the following, which are legal investments for fiduciaries under the laws of the State of Montana:

U.S. treasury obligations, U.S. agency obligations, direct obligations of the State or any political subdivision of the State rated in either of its two highest rating categories by a nationally recognized bond

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Investments - continued:

rating agency, public bonds and notes fully secured as to payment of principal and interest by a payment agreement with the United States of America, repurchase agreements with the U.S. treasury or U.S. agency obligations as the underlying securities, and certificates of deposit with the Federal Reserve System member banks or any Federal Savings and Loan Insurance Corporation member savings and loan association with the U.S. Treasury or U.S. agency obligations as collateral to the extent not insured.

Investments, which are generally intended to be held to maturity, are reported at the lower of cost or market. Investment premiums or discounts of $1,000 or more are amortized using the straight-line method over the life of the investment. Short-term discount investments are reported at cost.

Mortgage Loans Receivable:

Mortgage loans receivable are carried at their uncollected principal balances, adjusted for unamortized mortgage discounts and deferred loan fees, less an allowance for loan losses. Mortgage discounts and loan fees earned after 1988 are amortized using the interest method over the life of the mortgage loans and are accreted to interest income on mortgages. Mortgage discounts for all other program funds are amortized using the straight-line method over the remaining life of the mortgage loans and accreted to interest income.

The Board purchases mortgage loans secured by residences located throughout the State of Montana. Loans must be insured by the FHA (Federal Housing Administration) or guaranteed by the VA (Veterans Administration) or RHCDS (Rural Housing and Community Development Services). Guidelines to minimize credit risk are established by FHA, VA, RECDS and Board policies.

Interest receivable is accrued on the amount of outstanding mortgage loan principal only if deemed collectible. Accrual on non-performing loans ceases at six months.

Estimated losses are determined based on management's judgement, giving effect to numerous factors including, but not necessarily limited to, general economic conditions, loan portfolio composition, prior loss experience and independent appraisals. The reserve for anticipated loan losses represents amounts which are not expected to be fully reimbursed by certain guarantors.

The Board incurs mortgage loan service fees with participating loan servicers based on outstanding monthly mortgage loan principal balances. The service fees are paid only when the mortgagee's full monthly payment is collected.

Fixed Assets:

Fixed assets are recorded at cost and depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years. The majority of fixed assets consists of computers and software.

Bonds Payable:

Bonds payable is adjusted for amortized bond premiums and discounts. Bond premiums and discounts are amortized or accreted to interest expenses using the interest method, as an adjustment to yield, over the life of the bonds to which they relate or are expensed upon early redemption of the bonds.

Bond issuance costs, including underwriter discounts, are amortized using the bonds outstanding method over the life of the bonds or are expensed upon early redemption of the bonds.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Compensated Absences:
The Boards' employees earn vacation leave ranging from 15 to 24 days per year depending on the employee's years of service. Vacation leave may be accumulated to a total not to exceed two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Upon retirement or termination, an employee is paid for 100% of unused vacation leave and 25% of unused sick leave.

Fiscal Year 1994 Presentation:
The numbers presented in the total column of the 1994 Balance Sheet, Statement of Revenues, Expenses and Changes in Fund Balance and Statement of Cash Flows are from the State of Montana's Comprehensive Annual Financial Report for fiscal year 1994.

NOTE 2. CASH AND CASH EQUIVALENTS

As disclosed in note 3, the Board's investments are categorized to give an indication of the level of risk assumed by the Board. These same risk categories are used below for cash and cash equivalents. All cash held by trustees and cash balances maintained by the State of Montana Treasury and held in the state's short term investment pool were covered by federal depository insurance or collateralized by securities held by third parties in the Board's name. At June 30, 1995 and 1994, the carrying amounts of the Board's cash and cash equivalents equaled the bank balances.

	Category			Totals	
Fund	1*	2	3	1995	1994
Program Funds	$ 2,987,669	$ -	$ -	$ 2,987,669	$ 2,574,204
Deposited with State Treasury	124,639	-	-	124,639	9,715
	$ 3,112,308	$ -	$ -	$ 3,112,308	$ 2,583,919

* Cash deposits are held at the trustee bank. Based on the opinion of the Boards' bond counsel, these funds are insured by the FDIC on a pass-through basis to the owners of mortgage bonds. Thus, each individual bondholder is entitled to $100,000 of insurance coverage.

NOTE 3. INVESTMENTS

The Board's investments are categorized below to give an indication of the level of risk assumed by the Board. Category 1 includes investments which are insured, registered, or held by the Board or its agent in the Board's name. Category 2 includes uninsured and unregistered investments that are held by the counter party's trust department or agent in the Board's name. Category 3 includes uninsured and unregistered investments that are held by the Counterpart, or by its trust department or agent but not in the Board's name. The Board's investments at June 30, 1995 and 1994, consisted of Category 2 investments:

	1995		1994	
	Carrying Amount	Market Value	Carrying Amount	Market Value
U.S. Treasury	$ 51,995,184	$ 57,369,004	$ 53,356,508	$ 56,131,140
U.S. Agency	62,775,108	64,087,183	136,348,109	136,475,102
Repurchase agreements - collateralized	39,772,139	42,394,526	27,376,005	28,660,045
Total	$ 154,542,431	$ 163,850,713	$ 217,080,622	$ 221,266,287

All repurchase agreements were fully collateralized with securities and cash held by the provider and confirmed by the trustee as required by the bond indentures.

Portions of cash and investments are restricted to uses specified by applicable bond indentures and the HUD risk sharing agreement. Amounts are restricted as follows:

	1995		1994	
	Single family Mortgage Program Funds	Multifamily Mortgage Program Funds	Single family Mortgage Program Funds	Multifamily Mortgage Program
Funds				
Debt service reserve	$ 54,225,319	$ 845,804	$ 69,158,529	$ 845,889
Mortgage reserve	3,932,983	256,813	3,775,060	251,966
HUD risk sharing	-	522,294	-	504,732
Total	$ 58,158,302	$ 1,624,911	$ 72,933,589	$ 1,602,587

NOTE 4. MORTGAGE LOANS RECEIVABLE

The mortgage loans receivable are pledged in accordance with individual program indentures as security for holders of the bonds. Mortgage loans receivable consist of the following:

	1995	1994
Mortgage loan receivables:		
Single Family Program	$ 332,681,867	$ 295,212,186
Multifamily program	13,206,478	12,776,465
Housing Trust Program	290,873	197,543
	346,179,218	308,186,194
Net mortgage discounts and deferred reservation fees	(4,629,470)	(4,638,062)
Allowance for loan losses and real estate owned	(50,000)	(90,000)
	$ 341,499,748	$ 303,458,132

NOTE 5. ALLOWANCE FOR LOAN LOSSES AND REAL ESTATE OWNED

The following summarizes activity in the allowance for loan losses and real estate owned:

Balance, June 30, 1993	$ 90,000
Provision	-
Less: Net loans charged off	-
Balance, June 30, 1994	90,000
Provision	(26,471)
Less: Net loans charged off	(13,529)
Balance, June 30, 1995	$ 50,000

The allowance for loan losses includes $30,000 at June 30, 1995 and $40,000 at June 30, 1994, for future estimated losses on real estate owned. Real estate owned property is property that is acquired through foreclosure or in satisfaction of loans and is initially recorded at the lower of the related loan balance, less any specific allowance for loss, or fair market value minus estimated costs to sell. The Board had no real estate owned property during 1995 or 1994.

NOTE 6. MULTIFAMILY ESCROW AND RESERVE DEPOSITS HELD IN TRUST

For the years ended June 30, 1995 and 1994, escrow and reserve deposits for certain Multifamily mortgages were held in trust for the mortgagor for insurance, real estate taxes and a reserve for replacement under the terms of certain Regulatory Agreements between the Board and the mortgagors. The escrows amounted to $306,974 and $248,814 at June 30, 1995 and 1994, respectively. The escrows are invested with the earnings credited to the mortgagor of the project, not the Board. The escrow and related liabilities are not reflected in the accompanying combining balance sheet.

NOTE 7. FIXED ASSETS

Fixed assets consist primarily of computer hardware, peripherals, software and other office equipment. Balances are as follows:

	1995	1994
Furniture, fixtures, and equipment at cost	$ 231,638	$ 223,305
Accumulated depreciation	(149,253)	(165,821)
Net fixed assets	$ 82,385	57,484

Depreciation expense included in general and administrative expense was $27,565 and $22,958 for the years ended June 30, 1995 and 1994, respectively.

NOTE 8. BONDS PAYABLE, NET

Bonds payable, net, consists of the following:

	Original Amount	1995	1994
Single Family I Mortgage Bonds:			
1977 -			
Series A, 4.5% to 8% interest, maturing in Scheduled annual installments to October 1, 2008.	$ 21,470,000	$ 9,830,000	$ 10,660,000
Series B, 4.15% to 8% interest, maturing in Scheduled annual installments to October 1, 2008.	35,060,000	16,490,000	17,780,000
1978 -			
Series A, 6% to 6.5% interest, maturing in scheduled annual installments to October 1, 2009.	13,600,000	6,650,000	7,090,000
1987 -			
Series A, 5.3% to 8.625% interest, maturing in scheduled annual installments to April 1, 2000 and on April 1, 2018.	20,000,000	8,560,000	10,445,000
Series B-1 and B-2, serial and term bonds, 6.25% to 9% interest, maturing in scheduled annual installments to April 1, 2019.	20,000,000	6,865,000	9,390,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	1995	1994
1988 -			
Series A-1 and A-2 serial, term and Postponed Revenue on Future Income Tax-Exempt Securities (PROFITS), 5.4% to 8.5% interest, maturing in scheduled annual installments to April 1, 2003 and on April 1, 2019.	$ 19,998,793	$ 10,697,741	$ 12,756,178
Total Bonds outstanding		59,092,741	68,121,178
Unamortized bond discount		(19,162)	(27,768)
Total bonds payable, net		59,073,579	68,093,410
Single Family II Mortgage Bonds:			
1979 -			
Series A, 5.1% to 6.6% interest, maturing in scheduled annual installments to June 1, 1996 and on June 1, 2011	100,000,000	40,660,000	46,340,000
1983 -			
Series B, 8% to 9,625% interest, refunded August 1, 1994.	55,000,000	-	16,875,000
Series C, serial, term and Capital Appreciation Bonds (CAB), 5.75% to 10.7% interest. Serial and term bonds, refunded April 15, 1994. CABs are reported at accreted value, and are scheduled for redemption, in part, in semi-annual installments commencing June 1, 2003 to June 1, 2010.	114,998,229	19,737,704	20,869,236
1984 -			
Series A, serial, term and CABs, 7.0% to 10.375% interest. Serial and term bonds refunded August 1, 1994. CABs are reported at accreted value, and are scheduled for redemption, in part, in annual installments commencing June 1, 2005 to June 1, 2010.	75,002,290	6,783,154	22,632,607

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	1995	1994
1985 - Series A, serial, term, CAB and Postponed Revenue on Future Income Tax - Exempt Securities (PROFITS), CABs are reported at accreted value, and scheduled for redemption, in part, in semi-annual installments commencing June 1, 1999 to December 1, 2004 and December 1, 2015 to June 1, 2016; PROFITS are reported at accreted value, and begin to pay interest semi-annually, scheduled for redemption, in part, in semi-annual installments commencing December 1, 2010 to June 1, 2013.	$ 39,999,625	$ 11,714,133	$ 12,242,750
1985 - Series B, term bonds maturing in scheduled semi-annual installments commencing June 1, 2006 to June 1, 2011. (Partially refunded, See Note 15)	74,996,862	5,420,000	12,515,000
1992 - Series RA, serial and term, 5.65% to 6.5% interest, serial and term bonds maturing in scheduled semi-annual installments commencing June 1, 2003 to December 1, 2007, and on December 1, 2012, December 1, 2022, and December 1, 2032.	22,520,000	22,520,000	22,520,000
1994 - Series A-1 and A-2, serial and term bonds, 3.1% to 6.1% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2015 and December 1, 2024.	25,725,000	23,795,000	25,725,000
Series B-1 and B-2, serial and term bonds, 3.8% to 6.9% interest, serial and term bonds maturing in scheduled semi-annual installments to December 1, 2002, and on June 1, 2008, December 1, 2014 and June 1, 2025.	40,815,000	37,455,000	40,815,000
Series C-1 and C-2, serial and term bonds 4.5% to 6.8% interest, serial and term bonds maturing in scheduled semi-annual installments commencing December 1, 1996 to December 1, 2008 and on December 1, 2016, June 1, 2020, and December 1, 2026.	20,000,000	20,000,000	-

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	1995	1994
1995 -			
Series A-1 and A-2 serial and term bonds 4.75% to 6.55% maturing in scheduled semi-annual installments commencing December 1, 1997 to December 1, 2009, and on December 1, 2012, December 1, 2017, December 1, 2025, and June 1, 2027.	$ 33,580,000	$ 33,580,000	-
Total bonds outstanding		221,664,991	220,534,593
Unamortized bond discount		-	(14,203)
Total bonds payable, net		221,664,991	220,520,390
Single Family III Mortgage Bonds:			
1988 -			
Series B-1 and B-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.9% interest, maturing in scheduled semi-annual installments to October 1, 2008, and on October 1, 2014 and October 1, 2020.			
Senior Bonds	$ 24,000,000	$ 11,810,000	$ 14,140,000
Subordinate Bonds	1,000,000	570,000	700,000
Single Family IV Mortgage Bonds:			
1989 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 7% to 9.2% interest, maturing in scheduled semi-annual installments to October 1, 2004, and on October 1, 2009, October 1, 2018 and October 1, 2020.			
Senior Bonds	24,000,000	12,110,000	14,545,000
Subordinate Bonds	1,000,000	580,000	695,000
Single Family V Mortgage Bonds:			
1990 -			
Series A-1 and A-2, serial and term senior bonds and subordinate bonds, 6.2% to 8.525% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017 and October 1, 2021.			
Senior Bonds	24,000,000	14,145,000	17,155,000
Subordinate Bonds	1,000,000	715,000	825,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	1995	1994
Single Family VI Mortgage Bonds:			
1990 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 6.3% to 8.5% interest, maturing in scheduled semi-annual installments to October 1, 2005, and on October 1, 2010, October 1, 2016, October 1, 2017, and April 1, 2022.			
Senior Bonds	$ 24,000,000	$ 14,895,000	$ 17,940,000
Subordinate Bonds	1,000,000	745,000	860,000
Single Family VII Mortgage Bonds:			
1990 -			
Series C-1 and C-2, serial and term bonds and subordinate bonds, 6.55% to 8.95% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2010, October 1, 2017, October 1, 2021, and April 1, 2022.			
Senior Bonds	24,000,000	14,940,000	17,105,000
Subordinate Bonds	1,000,000	770,000	860,000
Single Family VIII Mortgage Bonds:			
1991 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 5.2% to 8.275% interest, maturing in semi-annual installments to October 1, 2006, and on October 1, 2017, October 1, 2019, and October 1, 2022.			
Senior Bonds	24,000,000	17,910,000	20,330,000
Subordinate Bonds	1,000,000	815,000	910,000
Single Family IX Mortgage Bonds:			
1991 -			
Series B-1 and B-2, serial and term bonds and subordinate bonds, 5.50% to 8.4% interest, maturing in semi-annual installments to October 1, 2004, and on October 1, 2006, October 1, 2017, October 1, 2022 and April 1, 2023.			
Senior Bonds	24,000,000	18,365,000	20,870,000
Subordinate Bonds	1,000,000	820,000	900,000

NOTE 8. BONDS PAYABLE, NET - continued

	Original Amount	1995	1994
Single Family X Mortgage Bonds:			
1992 -			
Series A-1 and A-2, serial and term bonds and subordinate bonds, 4.45% to 7.85% interest, maturing in scheduled semi-annual installments to October 1, 2006, and on October 1, 2016, October 1, 2022 and October 1, 2023.			
Senior Bonds	$ 24,000,000	$ 19,845,000	$ 21,110,000
Subordinate Bonds	1,000,000	830,000	890,000
Total Single Family Mortgage bonds payable, net		410,603,570	438,448,800

All single family mortgage bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption at various dates at prices ranging from 100% to 103%.

Single Family III through X mortgage senior bonds are special obligation bonds of the Board of Housing whereas subordinate bonds are general obligation bonds of the Board of Housing.

Single Family I and II mortgage series bonds are general obligation bonds of the Board of Housing within the individual bond indenture.

	Original Amount	1995	1994
Multifamily Mortgage Bonds:			
1978 -			
Series A, 6.125% interest, maturing in scheduled annual installments to August 1, 2019.	$ 4,865,000	$ 4,305,000	$ 4,365,000
1992 -			
Series A, 2.95% to 6.55% interest, serial and term Bonds, maturing in scheduled semi-annual installments to August 1, 2006, and on August 1, 2012, and August 1, 2023.	9,725,000	9,465,000	9,615,000
Total bonds outstanding		13,770,000	13,980,000
Unamortized bond premiums		53,729	55,945
Total Multifamily Mortgage bonds payable, net		13,823,729	14,035,945
Combined total bonds payable, net		$ 424,427,299	$ 452,484,745

All multifamily bonds are subject to mandatory sinking fund requirements of scheduled amounts commencing at various dates and to optional redemption after various dates at prices ranging from 100% to 105%.

NOTE 8. BONDS PAYABLE, NET - continued

The following is a primary summary of bond principal and interest requirements as of June 30, 1995:

Year Ending June 30:	Single Family Mortgage Program Funds	Multifamily Mortgage Program Funds	Principal Totals	Interest Totals
1996	$ 38,545,549	$ 1,068,860	$ 13,625,000	$ 25,989,409
1997	38,322,738	1,068,352	14,320,000	25,071,090
1998	38,044,978	1,071,563	14,560,000	24,556,540
1999	37,905,515	1,068,730	15,021,300	23,952,945
2000	37,945,153	1,069,857	15,608,776	23,406,234
Thereafter	700,540,184	23,144,059	351,257,656	372,426,588
Total	$ 891,304,117	$ 28,491,421	$ 424,392,732	$ 495,402,806

Cash paid for interest expenses during the years ending June 30, 1995 and 1994 was $26,614,423 and $31,762,438.

NOTE 9. LOSS ON REDEMPTION

During the years ended June 30, 1995 and 1994, the Board redeemed Single Family mortgage program Bonds prior to scheduled maturity as follows:

	1995	1994
Single Family I		
October 1	$ 4,672,626	$ 3,615,000
April 1	1,170,428	6,879,327
	5,843,054	10,494,327
Single Family II		
December 1	$ 11,933,286	$ 29,812,158
June 1	5,235,054	25,123,071
	17,168,340	54,935,229
Single Family III		
October 1	$ 1,565,000	$ 1,550,000
April 1	670,000	2,475,000
	2,235,000	4,025,000
Single Family IV		
October 1	$ 1,720,000	$ 1,785,000
April 1	640,000	2,845,000
	2,360,000	4,630,000
Single Family V		
October 1	$ 1,615,000	$ 1,475,000
April 1	1,235,000	2,300,000
	2,850,000	3,775,000

NOTE 9. LOSS ON REDEMPTION - continued

Single Family VI		
October 1	$ 1,765,000	$ 1,690,000
April 1	1,135,000	1,990,000
	2,900,000	3,680,000
Single Family VII		
October 1	$ 1,300,000	$ 1,830,000
April 1	715,000	2,825,000
	2,015,000	4,655,000
Single Family VIII		
October 1	$ 1,120,000	$ 965,000
April 1	1,100,000	1,370,000
	2,220,000	2,335,000
Single Family IX		
October 1	$ 1,420,000	$ 1,040,000
April 1	890,000	1,200,000
	2,310,000	2,240,000
Single Family X		
October 1	$ 580,000	$ 2,145,000
April 1	460,000	720,000
	1,040,000	2,865,000
Total	$ 40,941,394	$ 93,634,556

All such Bonds were redeemed at par or 100% of their compounded value to date of redemption. Unamortized discounts and cost of issuance associated with the bonds redeemed were expensed at time of redemption and are reported as losses on redemption of $485,504 and $1,308,464 in 1995 and 1994, respectively.

NOTE 10. COMMITMENTS AND CONTINGENCIES

The Board has reserved and is in the process of purchasing Single Family Mortgages of approximately $19,326,295 from the issuance of the 1995 Series A Bonds.

The Board has committed to purchase Single Family Mortgages as noted below:

Owners in Partnership	$ 782,188
Affordable Housing Program	780,000
City of Billings	1,520,092
Western MT Mental Health Center	1,330,000
District XI Human Resources	1,500,000
City of Kalispell	2,686,000
Neighborhood Housing Services Inc.	105,473
Disabled Accessible Affordable Home Ownership	2,400,715
Cash Assistance Program	2,000,000

NOTE 10. COMMITMENTS AND CONTINGENCIES-continued

Single Family Commitments - continued:	
Montana Peoples Action Affordable Hsg Prgm	150,000
Residential New Construction Pilot Program for Energy Efficient Homes	1,594,297
Western Montana Mental Health Ctr Prgm	171,000
Total Single Family commitments	$15,019,765

The Board has committed to purchase Multifamily Mortgages as noted below:

Bozeman Interfaith Housing	$ 355,000
Great Falls Housing Authority	266,000
Phillips Apartments	269,000
Billings Housing Authority	340,811
FAF Subsidy Setaside (restricted by agreement with HUD)	112,090
HUD Risk Sharing (To cover risk per contract with HUD)	500,000
Total Mulfamily commitments	$ 1,842,901

The Board has committed Housing Trust Funds as noted below:

Home buyers Cash Assistance Program	$ 45,000
Home buyers Cash Assistance Program - Disabled	48,000
Reverse Annuity Mortgage Loan Program	1,128,514
Total Housing Housing Trust Fund commitments	$1,221,514

These mortgage commitments will be funded through cash and investments.

The Board leases office space at $2,338 per month per a lease agreement expiring March 1, 1996. Additionally, during the ordinary course of business, the Board incurs expenses under various cancelable leases for rental of equipment and maintenance contracts.

NOTE 11. EMPLOYEE BENEFIT PLANS

Pension Plan: All eligible employees of the Montana Board of Housing participate in the Montana Public Employees Retirement System (PERS), a defined benefit plan and cost-sharing multiple-employer public employee retirement system. The Board is required to contribute for full-time employees at the rate of 6.70% of annual compensation under State statute. Employees are required to contribute 6.70% of annual compensation. Part-time employees have an option to belong to the retirement plan, depending upon hours worked.

The total number of Board employees covered during the years ended June 30, 1995 and 1994, was 12 and 13, respectively. The total covered payroll and total payroll for these employees was $310,664 in 1995 and $316,450 in 1994. The Board's contributions were $20,673 and $29,181 for the years ended June 30, 1995 and 1994, respectively. Benefit eligibility is age 60 with at least 5 years service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5

NOTE 11. EMPLOYEE BENEFIT PLANS - continued

years of service. Monthly retirement benefits are determined by taking 1/56 times the number of years of service times 60% maximum of final pay. Members' rights become vested after 5 years of service.

In 1994, the State of Montana allowed early retirement for qualifying employees. The State made additional contributions to the retirement plan for those employees who chose this option.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actual present value of credited projected benefits, is intended to help users assess the system's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among employers. The Board is unable to determine the actuarial present value of credited projected benefits and net assets available for benefits since the information is available only on a total State basis, not agency basis.

The pension benefit obligation at June 30, 1994, (the latest information available) for the State system as a whole was $1,475,981,068. The system's net assets available for benefits at cost on June 30, 1994 were $1,202,058,615 leaving an overall unfunded pension benefit obligation of $273,922,453. The Board's 1994 contribution represented less that 1% of total June 30, 1994 contributions required of all participating entities. The Board is not responsible for any State system unfunded liability.

Ten year historical trend information showing the State system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's June 30, 1994 annual financial report, which is available from the Montana Department of Administration.

Deferred Compensation Plan: The Board's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance. The amount of compensation deferred is not available to employees until termination, retirement, death, or unforseen emergency. All amounts deferred under the plan created under Internal Revenue Code Section 457 remain the property of the State of Montana until paid, subject only to claims of the State of Montana's general creditors. Participants' rights under the plan are equal to those of general creditors of the State of Montana in an amount equal to their fair market value of the deferred account for each participant.

NOTE 12. CONTINGENT ARBITRAGE REBATE TAX LIABILITY PAYABLE TO U.S. TREASURY DEPARTMENT

The Board has established an accrual for the contingent liability for estimated arbitrage payments due to the Treasury Department in accordance with the Internal Revenue Code. The amount of the rebate in general terms is the difference between the actual interest earned on investments and "allowable" interest as defined by Treasury Department Regulations. Ninety percent of the estimated rebate will be paid to the United States Treasury within 60 days of the end of every fifth bond year until the bonds are retired, at which time 100% of the remaining rebate amount is due. Cash paid in arbitrage rebate taxes to the U.S. Treasury Department was $186,900 and $283,899 for fiscal years ending June 30, 1995 and 1994, respectively. The liabilities, which amounted to $125,280 and $234,689 as of June 30, 1995 and 1994, respectively, were fully funded.

NOTE 13. EXTRAORDINARY LOSS

Period ended June 30, 1994: On April 13, 1994, the Board issued $25,725,000 Single Family Program Refunding Bonds, 1994 Series A. The proceeds of these bonds were used to optionally redeem, on April 15, 1994, at a price of 103% $7,335,000 and at par $940,000 Single Family Program Bonds, 1983 Series A and at a price of 103% $8,450,000 of Single Family Program Bonds, 1983 Series C. The payment of the early redemption premium of $473,550 and the write-off of the remaining deferred bond issuance costs of $227,094 resulted in an extraordinary loss of $700,644.

NOTE 14. SUBSEQUENT EVENTS

Since July 1, 1995, the Board of Housing has operated within the Housing Division of the Department of Commerce. The Housing Division includes, the Board; Section 8, Housing Assistance; and the HOME programs.

On September 13, 1995, the Board issued $88,000,000 Single Family Program Bonds. A portion of the proceeds of these bonds will be used to optionally redeem, on October 16, 1995, $40,660,000 of the 1979 Series A. The payment of the early redemption premium and the write-off of the remaining deferred bond issuance costs as well as any gains or losses on the sale of investments will be deferred and amortized over the shorter of the life of the new bonds or the life of the redeemed bonds.

NOTE 15. DEFERRED BOND ISSUANCE COSTS

On June 9, 1994, the Board issued $40,815,000 Single Family Program Bonds, 1994 Series B. A portion of these proceeds were used to optionally redeem, on August 1, 1994, $16,875,000 of the Single Family Program Bonds 1983 Series B, at a premium of 102.5%, and $11,200,000 of the Single Family Program Bonds 1984 Series A, at a premium of 103%.

NOTE 15. DEFERRED BOND ISSUANCE COSTS-CONTINUED

On April 6, 1995, the Board issued $33,580,000 Single Family Program Bonds, 1995 Series A. A portion of these proceeds were used to optionally redeem, on June 1, 1995, $5,000,000 of the Single Family Program Bonds 1985 Series B, at a premium of 102%.

As required by Governmental Accounting Standards Board (GASB), Statement Number 23, the Board has deferred the costs related to the refundings of the 1994 Series B and the 1995 Series A Bonds. Prior to the implementation of GASB 23, these costs were recognized as extraordinary losses. In 1994, the cost associated with refunding the 1994 Series A bonds was presented as an extraordinary loss of $700,644 (See Note 13).

Under GASB 23, the deferred costs are required to be amortized over the shorter of the life of the refunded bonds or the life of the refunding bonds.

The following amounts were deferred and are being amortized under the GASB 23 guidelines:

1994B Refunding	
Cost of Issuance related to 1983B	181,384
Cost of Issuance related to 1984A	135,645
Premium paid on 1983B bonds	421,875
Premium paid on 1984A bonds	336,000
Bond discount related to 1984A	14,046
1995A Refunding	
Cost of Issuance related to 1985B	87,214
Premium paid on 1985B bonds	100,000
Gain on sale of investments related to refunding on the 1985B bonds	(513,930)
Total Deferred refunding costs	762,234
Less 1995 amortization	(265,954)
Net Deferred refunding costs	496,280

The 1994 Series B refunding resulted in an economic gain of $11,962,013 and a difference in cash flows of $10,104,447. The 1995 Series A refunding resulted in an economic gain of $1,174,540 and a cash flow difference of ($1,430,338). The 1995A issue is at a substantially lower interest rate, but a negative cash flow resulted because the debt payments of the refunding debt (1995A) were extended for 16 years beyond debt payment of the refunded debt (1985B).

NOTE 16. RELATED PARTY TRANSACTIONS

Employees, officers and stockholders of certain approved originator and servicing financial institutions of the Board also serve as directors of the Board of Housing.

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1995

	Single Family I	Single Family II	Single Family III	Single Family IV
ASSETS				
Cash and cash equivalents	380,594	1,299,682	5,007	5,397
Investments	32,444,057	97,662,737	1,652,143	1,972,703
Mortgage loans receivable	46,778,123	169,803,918	10,981,763	10,925,890
Interest receivable--Investments	233,801	1,511,340	27,376	34,463
Interest receivable-Mortgages	345,568	1,194,271	98,013	92,987
Deferred bond issuance costs, net	882,892	2,628,956	156,945	184,260
Fixed assets	6,831	68,496	-	-
Prepaid expense	8,281	19,168	-	-
Accounts receivable	-	1,051	-	-
Total assets	81,080,147	274,189,619	12,921,247	13,215,700
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	55,141	139,368	6,611	6,194
Cost of issuance payable	-	52,115	-	-
Accrued interest bonds payable	973,496	1,382,802	242,232	258,117
Bonds payable, net	59,073,579	221,664,991	12,380,000	12,690,000
Less: Deferred refunding costs	-	(496,280)	-	-
Arbitrage tax payable to U.S. Treasury Department	-	-	-	50,430
Accrued compensated absences	8,761	16,110	-	-
Total liabilities	60,110,977	222,759,106	12,628,843	13,004,741
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Single Family Programs	12,370,891	45,009,027	292,404	210,959
Various Recycled Mortgage Programs	8,598,279	6,421,486		
Total Retained Earnings	20,969,170	51,430,513	292,404	210,959
Total Liabilities and Retained Earnings	81,080,147	274,189,619	12,921,247	13,215,700

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1995

	Single Family V	Single Family VI	Single Family VII
ASSETS			
Cash and cash equivalents	5,896	4,798	280
Investments	2,301,553	2,207,608	2,564,938
Mortgage loans receivable	12,734,212	13,587,169	13,310,448
Interest receivable--Investments	39,334	39,495	44,373
Interest receivable-Mortgages	104,552	104,921	111,434
Deferred bond issuance costs, net	203,380	213,319	207,815
Fixed assets	-	-	-
Prepaid expense	-	-	-
Accounts receivable	-	-	-
Total assets	15,388,927	16,157,310	16,239,288
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	7,738	7,212	7,155
Cost of issuance payable	-	-	-
Accrued interest bonds payable	285,431	299,574	306,824
Bonds payable, net	14,860,000	15,640,000	15,710,000
Less: Deferred refunding costs	-	-	-
Arbitrage tax payable to U.S. Treasury Department	17,399	13,220	44,231
Accrued compensated absences	-	-	-
Total liabilities	15,170,568	15,960,006	16,068,210
RETAINED EARNINGS:			
Reserved Retained Earnings- Pledged to Bondholders			
Single Family Programs	218,359	197,304	171,078
Various Recycled Mortgage Programs			
Total Retained Earnings	218,359	197,304	171,078
Total Liabilities and Retained Earnings	15,388,927	16,157,310	16,239,288

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING BALANCE SHEET
JUNE 30, 1995

	Single Family VIII	Single Family IX	Single Family X	Combined totals
ASSETS				
Cash and cash equivalents	1,817	(655)	(17,334)	1,685,482
Investments	2,896,287	2,940,009	2,824,361	149,466,396
Mortgage loans receivable	15,950,194	16,304,320	17,705,074	328,081,111
Interest receivable--Investments	43,858	45,220	39,280	2,058,540
Interest receivable-Mortgages	115,134	117,725	123,209	2,407,814
Deferred bond issuance costs, net	263,202	261,753	290,235	5,292,757
Fixed assets	-	-	-	75,327
Prepaid expense	-	-	-	27,449
Accounts receivable	-	-	-	1,051
Total assets	19,270,492	19,668,372	20,964,825	489,095,927
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	8,074	7,900	9,222	254,615
Cost of issuance payable	-	-	-	52,115
Accrued interest bonds payable	336,849	344,182	341,388	4,770,895
Bonds payable, net	18,725,000	19,185,000	20,675,000	410,603,570
Less: Deferred refunding costs	-	-	-	(496,280)
Arbitrage tax payable to U.S. Treasury Department	-	-	-	125,280
Accrued compensated absences	-	-	-	24,871
Total liabilities	19,069,923	19,537,082	21,025,610	415,335,066
RETAINED EARNINGS:				
Reserved Retained Earnings- Pledged to Bondholders				
Single Family Programs	200,569	131,290	(60,785)	58,741,096
Various Recycled Mortgage Programs				15,019,765
Total Retained Earnings	200,569	131,290	(60,785)	73,760,861
Total Liabilities and Retained Earnings	19,270,492	19,668,372	20,964,825	489,095,927

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1995

	Single Family I	Single Family II	Single Family III	Single Family IV
REVENUES:				
Interest Income-mortgage loans	3,865,399	11,537,296	1,022,147	1,056,342
Interest Income-Investments	2,117,691	7,286,726	167,008	199,146
Fee income	-	14,518	-	-
Gain (loss) on sale of investments	-	1,083,208	-	-
Other income	-	230	-	-
Total revenues	5,983,090	19,921,978	1,189,155	1,255,488
EXPENSES:				
Interest on bonds	4,358,528	14,845,547	1,047,558	1,113,993
Servicer fees	182,782	536,841	44,560	44,502
Amortization of bond issuance costs	73,601	379,719	10,586	11,891
General and administrative	204,130	536,809	12,259	10,058
Arbitrage rebate tax	-	-	-	15,553
Loss on redemption	103,657	132,076	28,965	35,088
Total expenses	4,922,698	16,430,992	1,143,928	1,231,085
Operating Income	1,060,392	3,490,986	45,227	24,403
Nonoperating expenses				
Loss on disposal of fixed assets	-	(875)	-	-
Net income (loss)	1,060,392	3,490,111	45,227	24,403
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholder	19,908,778	47,940,402	247,177	186,556
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholder	20,969,170	51,430,513	292,404	210,959

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1995

	Single Family V	Single Family VI	Single Family VII	Single Family VIII
REVENUES:				
Interest Income-mortgage loans	1,165,899	1,234,385	1,248,740	1,387,126
Interest Income-Investments	235,932	233,772	209,250	227,572
Fee income	-	-	-	-
Gain (loss) on sale of investments	-	-	-	-
Other income	-	-	-	-
Total revenues	1,401,831	1,468,157	1,457,990	1,614,698
EXPENSES:				
Interest on bonds	1,252,423	1,305,139	1,302,939	1,434,710
Servicer fees	52,102	55,134	54,854	65,219
Amortization of bond issuance costs	12,427	12,597	12,601	15,540
General and administrative	14,760	14,514	19,870	21,929
Arbitrage rebate tax	22,990	29,353	9,595	-
Loss on redemption	39,618	40,218	27,194	31,702
Total expenses	1,394,320	1,456,955	1,427,053	1,569,100
Operating Income	7,511	11,202	30,937	45,598
Nonoperating expenses				
Loss on disposal of fixed assets	-	-	-	-
Net income (loss)	7,511	11,202	30,937	45,598
Retained Earnings, beginning of year:				
Reserved Retained Earnings-Pledged to Bondholder	210,848	186,102	140,141	154,971
Retained Earnings, end of year:				
Reserved Retained Earnings-Pledged to Bondholder	218,359	197,304	171,078	200,569

MONTANA BOARD OF HOUSING,
A COMPONENT UNIT OF THE STATE OF MONTANA
SINGLE FAMILY COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
JUNE 30, 1995

	Single Family IX	Single Family X	Combined totals
REVENUES:			
Interest income-mortgage loans	1,411,419	1,394,915	25,323,668
Interest income-Investments	225,273	173,705	11,076,075
Fee income	-	-	14,518
Gain (loss) on sale of investments	-	-	1,083,208
Other income	-	-	230
Total revenues	1,636,692	1,568,620	37,497,699
EXPENSES:			
Interest on bonds	1,457,312	1,404,156	29,522,305
Servicer fees	66,604	70,558	1,173,156
Amortization of bond issuance costs	15,376	16,196	560,534
General and administrative	21,258	32,633	888,220
Arbitrage rebate tax	-	-	77,491
Loss on redemption	32,127	14,859	485,504
Total expenses	1,592,677	1,538,402	32,707,210
Operating Income	44,015	30,218	4,790,489
Nonoperating expenses			
Loss on disposal of fixed assets	-	-	(875)
Net income (loss)	44,015	30,218	4,789,614
Retained Earnings, beginning of year:			
Reserved Retained Earnings-Pledged to Bondholder	87,275	(91,003)	68,971,247
Retained Earnings, end of year:			
Reserved Retained Earnings-Pledged to Bondholder	131,290	(60,785)	73,760,861